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AND THE BROADCASTING BOARD OF GOVERNORS
OFFICE OF INSPECTOR GENERAL

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**Compliance Followup Audit of Department of
State Actions To Address Weaknesses in the
Ownership, Award, Administration, and Transfer
of Overseas Construction Funded by the
President's Emergency Plan for AIDS Relief**

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United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability, and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in blue ink, appearing to read "N. P. Brown".

Norman P. Brown
Assistant Inspector General
for Audits

Acronyms

CDC	Centers for Disease Control and Prevention
COP	Country Operation Plan
COR	contracting officer's representative
FACTS	Foreign Assistance Coordination and Tracking System
FAR	<i>Federal Acquisition Regulation</i>
HHS	Department of Health and Human Services
MOU	Memorandum of Understanding
OBO	Bureau of Overseas Buildings Operations
OIG	Office of Inspector General
PEPFAR	President's Emergency Plan for AIDS Relief
RPSO	Regional Procurement Support Office
S/GAC	Office of the U.S. Global AIDS Coordinator
USG	U.S. Government

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Executive Summary

The President's Emergency Plan for AIDS Relief¹ (PEPFAR) is the cornerstone of U.S. Government (USG) efforts to combat global HIV/AIDS. A key component is assisting affected countries in building medical laboratories, hospitals, blood banks, and care and treatment centers. Since its inception in 2003, PEPFAR has constructed or renovated 1,452 medical facilities at a cost of approximately \$192 million. Reporting directly to the Secretary of State, the U.S. Global AIDS Coordinator (S/GAC) oversees the U.S. global response to HIV/AIDS and directly approves all related USG activities. The Regional Procurement Support Office (RPSO) in Frankfurt, Germany, the Department of State's (Department) largest overseas acquisitions office, began awarding construction contracts for PEPFAR in 2003.

OIG visited 11 PEPFAR-funded medical facilities, 3 in Tanzania and 8 in Zambia, constructed during 2006–2012 and observed that the medical facilities were in generally good condition. Also, these facilities saw as many as 50–100 patients a day who received HIV/AIDS testing, counseling, and treatment care.

In 2011, the Department's Office of Inspector General (OIG) issued two audit reports that identified weaknesses in the oversight of PEPFAR-funded overseas construction and the award and administration of related construction contracts, including the lack of mechanisms to transfer ownership of completed facilities to host governments.² In these audit reports, OIG made nine recommendations: four to S/GAC and five to RPSO. Over the last 3 years, OIG closed four of the nine recommendations after verifying evidence provided by both S/GAC and RPSO that final corrective actions had been completed.³ OIG considered the remaining five recommendations open and resolved, pending further action.

Due to the important role that construction of medical facilities have in the overall PEPFAR effort, OIG's Audit Compliance and Followup Division performed a compliance followup audit to evaluate whether the Department had taken the necessary corrective actions to improve the administration and oversight of PEPFAR construction contracts. The objectives of the compliance followup audit were to (1) assess all open recommendations to determine whether the Department had taken appropriate actions to address the problems and (2) assess two recommendations previously closed to ensure that the Department's actions corrected the original deficiencies. Finally, during the course of the audit, we added a third objective examining the signage affixed to PEPFAR-funded medical facilities to determine whether it adequately identified the USG contribution and supported the Department's diplomatic efforts.

¹ United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003 (Pub. L. No. 108-25 § 102).

² *Audit of Construction and Transfer of Ownership of the President's Emergency Plan for AIDS Relief (PEPFAR) Overseas Construction Projects* (AUD/IP-11-14, June 2011) and *Improved Contract Documentation and Monitoring by the Regional Procurement Support Office Are Needed for Construction Projects Associated With the President's Emergency Plan for AIDS Relief (PEPFAR)* (AUD/IP-12-03, November 2011). and

³ OIG closed the following four recommendations: AUD/IP-12-03 No. 1 and AUD/IP-11-14 Nos. 1, 2, and 4.

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Overall, OIG found that the Department had made significant progress in implementing recommended corrective actions and in addressing the deficiencies identified in the Department's management of PEPFAR construction contracts. Specifically, OIG found that the Department had completed corrective actions sufficient to close four of the five open recommendations⁴ and verified that Department actions had corrected the original deficiencies for the two selected closed recommendations.⁵ However, OIG found that actions taken in response to the open recommendation on questioned contingency costs were not sufficient to meet the intent of the recommendation and exposed a larger problem over funds management for nine contracts and task orders and related obligations, totaling \$5,213,502. As a result, OIG is closing, modifying, and reissuing Recommendation 3 in report AUD/IP-12-03 as Recommendation 1 in this report to address whether \$5,213,502 identified as unliquidated obligations should be deobligated.

Finally, during its physical inspection of 14 PEPFAR-funded facilities, OIG was often unable to determine what role, if any, the USG played in the financing and construction of the healthcare facilities. PEPFAR signs affixed to the medical facilities were small and contained opaque wording. Clearer signage indicating the philanthropic contribution of the American people toward a critical public health concern could earn the USG valuable goodwill.

Management Comments

In July 2014, OIG provided a draft of this report to and requested comments from S/GAC and A/LM/AQM.

On July 30, 2014, OIG received an informal response from A/LM/AQM stating that A/LM/AQM agreed with the recommendation to determine whether the balance of \$5.2 million in obligations remaining on nine contracts and task orders was still necessary. A/LM/AQM stated it would research the obligations to determine whether they should be deobligated. However, A/LM/AQM did not indicate agreement or disagreement with the amount of obligations OIG questioned; therefore, OIG considers Recommendation 1 unresolved. In its July 23, 2014, response (see Appendix D) to the draft report, S/GAC agreed with the recommendation for better signage highlighting the American people's contribution to combatting HIV/AIDS and stated that it would issue additional guidance. OIG considers Recommendation 2 resolved, pending further action. Management's responses and OIG's replies to those responses are included after each recommendation.

Background

In 2003, PEPFAR was launched as the foundation and largest component of the U.S. President's Global Health Initiative, the goal of which is to save the greatest number of lives by increasing and building upon what works and, then, supporting countries as they work to

⁴ See AUD/IP-12-03 Nos. 2, 4, and 5 and AUD/IP-11-14 Nos. 3.

⁵ See AUD/IP-12-03 No. 1 and AUD/IP-11-14 No. 4.

improve the health of their people. With a special focus on combating global HIV/AIDS, PEPFAR is improving the health of women, newborns, and children. On July 30, 2008, H.R. 5501⁶ was signed into law by President George W. Bush amending and extending the earlier Act by authorizing up to \$48 billion over the next 5 years to combat global HIV/AIDS, tuberculosis, and malaria. In December 2013, President Obama signed the PEPFAR Stewardship and Oversight Act of 2013 that extends critical authorities and strengthens oversight through 2018. As part of the PEPFAR program, the USG assists affected countries in building and reconstructing laboratories, hospitals, blood banks, and care and treatment centers. An example of a renovated medical facility using PEPFAR funds in Zambia is shown in Figure 1.



Figure 1. Zambia National Service Nyimba Health Center (before and after)
(PEPFAR Zambia Photograph)

Between January 2010 and January 2011, OIG conducted a comprehensive audit (resulting in two separate reports) to assess the Department's role and actions related to the award, administration, and transfer of PEPFAR-funded overseas construction projects. During this audit, OIG uncovered numerous problems in managing the contracts including the following:

- The Department did not have a complete and accurate inventory of PEPFAR construction contracts—neither contracts in process nor contracts completed.
- Processes were not in place for transferring completed projects to the host governments, and sustainment plans that detailed follow-on maintenance, operating costs, and responsibilities had not been completed.
- Many contract files were missing key documents indicating a lack of internal control over Department contract actions and increasing financial risk.
- The Department included contingency costs in contract awards in violation of the Federal Acquisition Regulation (FAR) contracting requirements. All PEPFAR contracts are Firm-fixed Price contracts and cost overruns are the responsibility of the contractor.

⁶ Tom Lantos and Henry J. Hyde United States Global Leadership against HIV/AIDS, Tuberculosis and Malaria Reauthorization Act of 2008.

The results from this substantial audit effort were reported in 2011. The first report, *Audit of Construction and Transfer of Ownership of the President's Emergency Plan for AIDS Relief (PEPFAR) Overseas Construction Projects* (June 2011) AUD/IP-11-14, focused on S/GAC's oversight of PEPFAR construction. The report contained four recommendations, of which, three have been closed and one has been resolved, pending further action. The second report, *Improved Contract Documentation and Monitoring by the Regional Support Office Are Needed for Construction Projects Associated With the President's Emergency Plan for AIDS Relief (PEPFAR)* (November 2011) AUD/IP-12-03, focused on the Department's award and monitoring of PEPFAR construction contracts. This report contained five recommendations, of which, one has been closed and four have been resolved, pending further action.

OIG considers a recommendation "unresolved," "resolved," or "closed" based on the actions that the Department has taken or plans to take with respect to the recommendation.⁷ An unresolved recommendation is one for which the Department has neither taken action nor stated how it plans to implement the recommendation. A resolved recommendation is one for which the Department has agreed to implement the recommendation or one in which the Department has begun, but not yet completed, actions to fully implement the recommendation. A closed recommendation is one for which the Department has completed actions necessary to implement the recommendation and OIG has determined that no additional action is required.

Compliance Followup Audit Objectives

The objectives of this compliance followup audit were to (1) assess all open recommendations to determine whether the Department had taken appropriate actions to address the problems and (2) assess selected recommendations previously closed to ensure that the Department's actions corrected the original deficiencies. Finally, during the course of the audit, we added a third objective examining the signage affixed to PEPFAR-funded medical facilities to determine whether it adequately identified the USG contribution and supported the Department's diplomatic efforts.

Compliance Followup Audit Results

Overall, OIG found that the Department made significant progress in implementing recommended corrective actions and in addressing deficiencies identified in the Department's management of PEPFAR construction contracts. However, OIG is reissuing one recommendation to address fund management problems with old procurement actions. OIG found that the actions taken in response to the open recommendation on questioned contingency

⁷ Office of Management and Budget Circular A-50, Revised, "Audit Followup," Sept. 29, 1982. The circular requires that Federal agencies "assure the prompt and proper resolution and implementation of audit recommendations" made by Inspectors General, other executive branch audit organizations, the Government Accountability Office, and non-Federal auditors. Secs. 1, 5, 8a(2), and 8a(3) of the circular further require that agencies (1) resolve recommendations within a maximum of 6 months after the issuance of a final report; (2) implement corrective actions as rapidly as possible; and (3) specify criteria for proper resolution and corrective actions that provide for written plans for corrective actions with specified action dates, where appropriate.

costs were not sufficient to meet the intent of the recommendation and exposed a larger problem over funds management for the nine contracts and task orders and related obligations, totaling approximately \$5.2 million.

Reissued One Recommendation

OIG is closing Recommendation 3 from report AUD/IP-12-03 and modifying and reissuing it as Recommendation 1 in this report to address whether \$5,213,502 in unliquidated obligations should be deobligated.

Recommendation 3 from Audit Report AUD/IP-12-03. OIG recommended that the Regional Procurement Support Office in Frankfurt, Germany, review existing PEPFAR construction contracts and reclaim any contingency costs inappropriately included in contracts as practicable. (Note: This recommendation was resolved at report issuance based on RPSO's response to the draft report.)

Background: In audit report AUD/IP-12-03, OIG found that contingency costs of about \$2,126,148 were inappropriately included in eight contracts and 30 task orders valued at \$29,926,033. Because these contingency costs were part of the overall value of the contract, the funds could be spent without pre-approval from the Department. In a response to the final report,⁸ RPSO identified additional contingency costs increasing the total contingency costs for corrective action to \$2,240,463.

Compliance Followup Audit Results: OIG found that RPSO had taken sufficient corrective action for \$1,676,875 of the \$2,240,463, but RPSO had not sufficiently addressed the remaining \$563,588. Specifically, RPSO had disallowed \$1,020,946 (deobligated the funds or converted for re-use) and allowed \$655,929. However, a RPSO official stated that they could not make a determination on the remaining \$563,588 of contingency costs from nine contracts and task orders because they did not have sufficient records to make a determination.

Because RPSO did not have sufficient records for these nine procurements, OIG obtained their related accounting records and found a larger problem with funds management for these older procurements. The Department's accounting records showed that neither the contingencies nor the obligations⁹ associated with the nine contracts and task orders had been fully deobligated or liquidated even though the procurements were awarded in FYs 2007–2009. In fact, as shown in Table 1, \$5,335,035 remained of the original \$9,673,170 obligated for these nine procurements. Since the Department is responsible for maintaining effective control over its finances and spending the funds it receives in accordance with Federal law,¹⁰ RPSO needs to determine the validity of these outstanding obligations.

⁸ RPSO Memorandum and attachment dated October 16, 2013.

⁹ Obligations are amounts of orders placed, contracts awarded, services rendered, and similar transactions during a given period that will require payment. (AUD-FM-14-21, page 2)

¹⁰ OMB Circular A-123, Management's Responsibility for Internal Control, issued under the authority of the Federal Managers' Financial Integrity Act of 1982 as codified in 31 U.S.C. § 3512.

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Table 1. Procurement Actions With Remaining Balances

Contract/ Task Order	Fund	Obligated Amount	Remaining Balance
SGE50008F0349	19__X10310000	\$300,615	\$300,615
SGE50008F0347	19__X10300000	\$18,000	\$18,000
	19__X10310000	\$172,011	\$172,011
SGE50008F0140	19__X10300000	\$269,455	\$269,455
SGE50008F0031	19__X10300000	\$779,087	\$779,087
SGE50009F0005	19__X10300000	\$1,464,762	\$1,464,762
SGE50008F0093	19__X10300000	\$43,416	\$43,416
	7519_X10300001	\$172,820	\$172,820
SGE50007F1129	75__8909430000	\$121,533	\$121,533
	19__X10310000	\$176,545	\$176,545
	75__7809430000	\$33,654	-
SGE50008C0051	19__X10300000	\$1,678,637	\$1,678,637
SGE50009C0013	19__X10300000	\$2,649,800	\$69,658
	19__X10310000	\$1,792,835	\$68,496
Total		\$9,673,170	\$5,335,035

Source: Generated by OIG from data provided by Department financial management systems, including financial data obtained from Embassy Maputo.

Of the \$5,335,035, \$121,533 was funded from 2008 appropriations and has expired.¹¹ The remaining \$5,213,502 was funded from no-year appropriations¹² and is available without a fiscal year limitation for re-use and re-obligation.

Status: With this report, OIG is closing, modifying, and reissuing AUD/IP-12-03 Recommendation 3 as Recommendation 1 in this report to address whether the balance of \$5,213,502 in obligations remaining on the nine contracts and task orders identified are still necessary and, if not, deobligate them.

Recommendation 1. OIG recommends that the Regional Procurement Support Office in Frankfurt, Germany, determine whether the balance of \$5,213,502 in obligations remaining on the nine contracts and task orders identified are still necessary and, if not, deobligate them.

Management Response: A/LM/AQM agreed with this recommendation, stating that it would research the outstanding obligations to determine whether they should be deobligated.

OIG Reply: OIG considers this recommendation unresolved. The A/LM/AQM response was not satisfactory to resolve the recommendation because management did not provide a decision with respect to the validity of the \$5,213,502 in obligations identified by

¹¹ Both multi-year and single-year appropriations have an additional 5-year period beyond the original period during which the “expired” funds remain available for certain types of adjustments to obligations. At the end of the 5-year period, the appropriation is closed and any remaining balance, whether obligated or unobligated, is “canceled” and the remaining funds are deposited in the Treasury. (AUD-FM-14-21, page 2)

¹² Appropriations are classified as no-year, multi-year, and single-year. No-year appropriations are available for obligating and expending without a fiscal year limitation. (AUD-FM-14-21, page 2)

OIG. This recommendation can be resolved when A/LM/AQM provides a determination (dollar value agreed to or not agreed to) on the validity of \$5,213,502 in unliquidated obligations. This recommendation can be closed when OIG reviews and accepts documentation showing that A/LM/AQM has taken action to deobligate those obligations determined to be unnecessary.

Closed Four Recommendations

OIG found that the Department had completed corrective actions sufficient to close four of the five other open recommendations.

Recommendation 2 from Audit Report AUD/IP-12-03. OIG recommends that the Regional Procurement Support Office in Frankfurt, Germany, issue instructions for its personnel to stop the practice of including contingency funds in PEPFAR construction contracts unless identified contingencies arise from presently known and existing conditions, as described in section 31.205-7 of the *Federal Acquisition Regulation*. (Note: This recommendation was resolved at report issuance based on RPSO's response to the draft report.)

Compliance Followup Audit Results: In September 2013, RPSO issued instructions to all of its contract administration personnel—contract specialists, contracting officer's representatives (CORs), and architect and engineering contractors—to stop the practice of including contingency funds in PEPFAR construction contracts unless identified contingencies arise from presently known and existing conditions (per FAR 31.205-7). The guidance states, "Contingencies shall not be used in solicitations and contracts in accordance with the requirements of the FAR...the US Government is not required to adjust the price for their failure to review all the material provided. The responsibility is on the contractor to ensure they have as complete and accurate a proposal as possible."

Additionally, OIG found that RPSO had not included contingency costs in nine new contracts issued in Fiscal Years 2012 and 2013. Based upon the guidance issued by RPSO and OIG's verification that new construction contracts did not contain contingency costs, OIG determined that the intent of the recommendation was met.

Status: Closed.

Recommendation 4 from Audit Report AUD/IP-12-03. OIG recommends that the Regional Procurement Support Office in Frankfurt, Germany, issue instructions for its procurement staff to fully document contract monitoring to assess whether contractor performance is satisfactory. (Note: This recommendation was resolved at report issuance based on RPSO's response to the draft report.)

Compliance Followup Audit Results: OIG verified that RPSO issued guidance to its contracting staff—contract specialists, CORs, and architect and engineering contractor—on

maintaining adequate contract monitoring files, including steps to improve monitoring.¹³ This guidance reminds all CORs of the necessary documentation for monitoring contracts and its importance to the success of the project.

Additionally, during our site visits to Tanzania and Zambia, OIG found evidence of contract monitoring during construction in the CORs' project files. For example, in Tanzania, three newly awarded construction contract project files contained weekly progress reports conducted by the clerk of work,¹⁴ site visit reports, and evidence of voucher payment review by the COR. The weekly clerk of work reports and site visit reports were accompanied by pictures documenting the progress of the construction project. In Zambia, six newly awarded contract files also contained evidence of COR site visits that documented the progress of the construction using a monitoring form that tracked the financial and physical progress of the buildings, general comments on the quality of the workmanship, adherence to work program, quality of materials, number of workers on sites, as well as evidence of invoice voucher review by the COR. Based on the guidance provided and evidence in COR project files, OIG determined that RPSO's actions met the intent of recommendation.

Status: Closed.

Recommendation 5 from Audit Report AUD/IP-12-03. OIG recommends that the Regional Procurement Support Office in Frankfurt, Germany, require posts with substantial planned costs for PEPFAR construction projects to obtain a technical advisor with construction expertise for monitoring construction contracts. (Note: This recommendation was resolved at report issuance based on RPSO's response to the draft report.)

Compliance Followup Audit Results: RPSO's September 2013 guidance¹⁵ to its contracting specialists, CORs, and architect & engineer (A&E) contractors also recommended that PEPFAR agencies consider hiring a technically experienced engineer or architect to serve as COR (or advisor to the COR) on complex, large-value construction projects.

In Tanzania and Zambia, OIG found that individuals with construction expertise and construction contract monitoring experience had been assigned to the PEPFAR country teams. In Tanzania, an infrastructure advisor, with prior engineering experience, was hired and served as a consultant to the COR on all issues related to construction, such as conducting site visits to monitor projects and attending meetings with contracted architect/engineer technical¹⁶ advisors and construction contractors. In Zambia, an individual that serves as the COR is also a trained

¹³ Guidance on Maintaining Adequate Files on Contract Monitoring and Methods to Improve Monitoring as Applied to Construction Projects In Support of the President's Emergency Plan For AIDS Relief (PEPFAR) Program. September 2013.

¹⁴ Clerk of work is one of the engineers who are on-site daily during the construction process from one of the four architectural firms PEPFAR Tanzania hired to monitor its infrastructure constructions.

¹⁵ "Guidance on Maintaining Adequate Files on Contract Monitoring and Methods to Improve Monitoring as Applied to Construction Projects In Support of the President's Emergency Plan For AIDS Relief (PEPFAR) Program," September 2013.

¹⁶ Tanzania PEPFAR has contracts with four local Architect/Engineering firms to provide day-to-day monitoring of the construction/renovation projects and oversight of the building contractors.

civil engineer with 29 years of experience working in the construction industry. He has experience in designing infrastructure projects; quantifying materials and labor requirements and costs; preparing Bills of Quantities; managing projects; preparing project evaluations including final accounts and contract management, among other skills. He has served as the COR for PEPFAR construction projects in Zambia for approximately 7 years. Figure 2 is an example of an on-going construction project of a medical training center that the COR and the infrastructure advisor are responsible for monitoring.



Figure 2. On-going Construction Project of the Mkomandio Training Center in Masasi, Tanzania. (OIG photograph)

Based on the guidance provided and the expertise found at post, OIG determined that RPSO met the intent of recommendation.

Status: Closed.

Recommendation 3 from Audit Report AUD/IP-11-14. OIG recommends that the Office of the U.S. Global AIDS Coordinator appoint a senior-level official who has the requisite experience in construction and the authority to make decisions related to PEPFAR overseas construction projects and who will report directly to the U.S. Global AIDS Coordinator. (Note: This recommendation was resolved at report issuance based on S/GAC's response to the draft report.)

Compliance Followup Audit Results: S/GAC officials stated that they had not appointed a senior-level official because such a position did not match their staffing goals and because construction was only a small portion of their mission. However, S/GAC officials stated that they had considered several alternatives to implement OIG's recommendation and had decided on collaboration with OBO. Starting in FY 2012, S/GAC and OBO entered into a

partnership whereby OBO engineering/construction staff with building experience review participating countries' annual PEPFAR country operational plans (COP) proposed construction projects to determine the success of the projects. Although this is not a senior-level appointment with construction experience, OIG believes the partnership between S/GAC and OBO meets the intent of the recommendation.

Status: Closed.

Verified Two Closed Recommendations Had Corrected Original Deficiencies

OIG verified that the Department's actions corrected the original deficiencies for two selected closed recommendations that directly impacted the construction program. Two previously closed recommendations that were not reviewed as part of this audit as they addressed issues not directly related to building construction (see Appendix C).

Recommendation 1 from Audit Report AUD/IP-12-03. OIG recommends that the Regional Procurement Support Office in Frankfurt, Germany, issue instructions for its procurement staff to review active PEPFAR construction contract files to determine whether required contract award actions for PEPFAR construction contracts were properly performed and documented, including obtaining an Independent Government Cost Estimate, publicizing contract solicitations, and delegating a contracting officer's representative. If documentation supporting any of these actions is found, it should be included in the respective file. (Note: This recommendation was closed at report issuance based on RPSO's actions and response to the draft report.)

Compliance Followup Audit Results: OIG found that RPSO had taken several additional corrective actions since the final report had been issued. For instance, in September 2013, RPSO issued Guidance on Maintaining Adequate Files on Contract Monitoring and Methods to Improve Monitoring as Applied to Construction Projects In Support of the President's Emergency Plan For AIDS Relief (PEPFAR) Program outlining important contract award actions that need to be documented. All staff reviewed and signed the guidance memorandum acknowledging receipt of the guidance.

Also, OIG reviewed and found nine new contract files¹⁷ (2012–2013) for construction projects in Tanzania and Zambia to be well-organized. Specifically, the nine contract files contained key documents, including Independent Government Cost Estimates, published contract solicitations, and COR delegation letters. The RPSO files and the country PEPFAR files also included inspection reports, technical progress and financial reports, site visits, and evidence that voucher reviews had been conducted. Based on the guidance provided and results of the contract file review, OIG determined that RPSO actions met the intent of recommendation and corrected the original deficiency.

Status: Closed.

¹⁷ Of the nine contracts, three were task orders that were awarded in 2012-2013 from contracts originally awarded in FY 2009.

Recommendation 4 from Audit Report AUD/IP-11-14. OIG recommends that the Office of the U.S. Global AIDS Coordinator establish guidance that clearly describes procedures to be followed by U.S. Government agencies involved with PEPFAR construction projects, including the requisitioning of PEPFAR funds, accounting for PEPFAR properties (after construction and before transfer to the host governments), and transferring property to the host government. (Note: This recommendation was closed January 17, 2013 based on guidance issued by S/GAC.)

Compliance Followup Audit Results: During the compliance process, OIG verified S/GAC established guidance for USG agencies involved with PEPFAR construction projects, including the requisitioning of PEPFAR funds, accounting for PEPFAR properties, and transferring property to the host government. Beginning in FY 2012, S/GAC implemented new COP guidance for countries requesting assistance for HIV/AIDS construction and renovation projects. The guidance states, among other things, that PEPFAR teams should carefully evaluate the appropriateness of using USG assistance against other available options; that PEPFAR construction/renovation investments must be reported within the Foreign Assistance Coordination and Tracking System (FACTS) database;¹⁸ and that all construction/renovation projects must conclude with a Memorandum of Understanding (MOU) with the host government. The goal of the MOU is to facilitate planning and tracking of projects and to establish appropriate host country responsibilities for facilities following the transfer.

Additionally, during this audit, OIG found noticeable planned and on-going improvements in transfer of health facilities to the host governments in Tanzania and Zambia. In Tanzania, the PEPFAR team was in the process of finalizing a MOU between the Department and the Tanzanian Ministry of Health to formalize the transfer process as required by the new COP guidance. The MOU has a section on Responsibilities Regarding PEPFAR Facilities that discusses, among other things, the purpose of the facility and its intended use and the Ministry of Health's responsibility to maintain the property in good condition at its own expense. In Zambia, the PEPFAR team had an even more formalized transfer process. There is a 1-year defect liability period, in which if any issues arise, the building contractor is obligated to fix the problem. Once that liability period is complete, the facility is transferred using a "Handover/Acceptance Form" that details the project name, property address, nature of the facility, date the defects liability period expires, and terms of acceptance. By signing the form, the Zambian Ministry of Defense is agreeing to accept full responsibility for the facility, including any claims and liabilities. The facility will only be used for HIV/AIDS services and related health care services and the property will be maintained in good condition. This handover form is signed by a Zambian Defense official and the U.S. Embassy.

Finally, OIG observed that 11 PEPFAR-funded facilities constructed in FYs 2006–2012 were being well maintained and utilized (3 in Tanzania and 8 in Zambia). (See Appendix B for list of facilities constructed between 2006 and 2012 that the OIG team inspected.) Although the

¹⁸ Starting in FY 2012, S/GAC began requiring country teams to monitor and report on each facility constructed or renovated and subsequently transferred to the host country. The OIG audit team was able to verify the existence of this information which is entered and maintained within FACTS database. S/GAC is currently migrating previously built construction and renovation data (2004-2011) into the FACTS database.

team observed instances of minor cosmetic issues, such as facilities needing a fresh coat of paint, doors needing to be re-stained, patching up damages done to walls when things were moved or installed, OIG did not observe noticeable deterioration of the structures visited. During our site visits, all of the medical facilities were busy with patient activity and the team was told by host government medical officers that it was common for 50–100 patients a day to receive HIV/AIDS testing, counseling, and treatment care.

Status: Closed.

Improved Signage Would Highlight Philanthropic Contributions of the American People

U.S. global health investments have led to worldwide progress against HIV/AIDS, tuberculosis, malaria, smallpox, and polio. Better health abroad reduces the risk of instability and enhances our national security. In Tanzania and Zambia, HIV/AIDS spending, according to the embassies' reporting, represents the vast majority of their bilateral assistance contribution. Tanzania's health programs account for nearly two-thirds of the embassy's considerable annual bilateral assistance, and two-thirds of its health funding is programmed through PEPFAR. In Zambia, 92 percent of the embassy's health support budget of \$364 million (more than \$335 million annually) is devoted to HIV/AIDS, tuberculosis, and malaria support and prevention. Overall, within global HIV/AIDS health contributions, USG funding represents the largest share of external donor funding.

During our visit of 14 PEPFAR-constructed facilities in Tanzania and Zambia, OIG observed that it was often very difficult to determine what, if any role, the USG played in the financing and construction of the healthcare facilities. Figures 3–5 show examples of the limited size and opaque messaging of PEPFAR signage affixed to embassy constructed facilities.



Figure 3. Plaque at the National Headquarters and Zonal Blood Bank Transfusion Center – Ilala District, Dar es Salaam, Tanzania. The plaque states: “This building was opened jointly by Hon. David H, Mwakyusa (MP) Minister of Health and Social Welfare United Republic of Tanzania and His Excellency Michael L. Retzer Ambassador United States of America on June 8, 2006.” (OIG Photograph)

Figure 3 is typical of many plaques displayed at U.S.-constructed facilities at the inauguration ceremonies. Rather than highlighting the role of the senior embassy attending official, OIG believes it would be more effective to emphasize the facility is a contribution from the American people. Generally, in Zambia, the language on the signs clearly states that the American people funded the facility; however, the placement of these signs had limited public visibility, as shown in Figure 5.



Figure 4. A 6'' x 6'' decal affixed to an outer door at the Tandale Care and Treatment Clinic, Kinondoni District, Dar es Salaam, Tanzania, states, "Gift from the American People." (OIG Photograph)



Figure 5. Two signs at the tuberculosis ward at Livingstone General Hospital, Livingstone, Zambia. While the first exterior sign clearly shows that the American people funded the facility, the second interior plaque was located on a side hallway with limited public access. (OIG Photograph)



Figure 6. A Zambian Defense Force’s HIV/AIDS Secretariat Office, Lusaka, Zambia, sign states, “Zambians and Americans in Partnership to Fight HIV/AIDS.” (OIG Photograph)

This Zambian PEPFAR sign, which was prominently posted on the outside of the Secretariat office building represents a good example of how to showcase the U.S. Government’s significant HIV/AIDS public health contribution.

Conclusion

Clearer signage indicating the philanthropic contribution of the American people, combined with a more assertive public health diplomacy posture, may have foreign policy benefits, earning the United States goodwill. Better signage, including the use of local languages,¹⁹ would support the Department’s use of “Smart Power” to further the U.S. foreign policy goal of “strengthening our position of global leadership to protect the health of our planet and expand human dignity and opportunity.”²⁰

Recommendation 2. OIG recommends that S/GAC create standard signage for all PEPFAR-funded facilities to better highlight and display the American people’s contribution towards efforts to globally combat HIV/AIDS (including text, size, and placement).

Management Response: S/GAC agreed with the recommendation, stating that it intends to issue additional guidance on this subject matter.

OIG Reply: OIG considers this recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that S/GAC has issued guidance on better signage highlighting the American people’s contribution to combatting HIV/AIDS and evidence that PEPFAR country teams are complying.

¹⁹ For instance, Zambia had translated a radio program for people living with HIV/AIDS into seven local languages.

²⁰ American “Smart Power”: Diplomacy and Development are the Vanguard, Bureau of Public Affairs, May 4, 2009.

List of Recommendations

Recommendation 1. OIG recommends that the Regional Procurement Support Office in Frankfurt, Germany, determine whether the balance of \$5,213,502 in obligations remaining on the nine contracts and task orders identified are still necessary and, if not, deobligate them.

Recommendation 2. OIG recommends that S/GAC create standard signage for all PEPFAR-funded facilities to better highlight and display the American people's contribution towards efforts to globally combat HIV/AIDS (including text, size, and placement).

Scope and Methodology

The Office of Inspector General's (OIG) Audit Compliance and Followup Division initiated this compliance audit to determine whether the Department of State (Department) had made progress in implementing recommended corrective actions in addressing deficiencies identified in the Department's management of PEPFAR-funded overseas construction contracts. Specifically, we (1) assessed all open recommendations to determine whether the Department State had taken appropriate actions to address the problems and (2) assessed two recommendations previously closed to ensure that the Department's actions have corrected the original deficiencies. Finally, during the course of the audit, we added a third objective examining the signage affixed to PEPFAR-funded medical facilities to determine whether it adequately identified the USG contribution and supported the Department's diplomatic efforts.¹

OIG selected two of the closed recommendations to reexamine because they addressed important PEPFAR construction deficiencies in (1) accounting for and transferring PEPFAR properties to the host government and (2) performing and documenting required contract award actions. The two closed recommendations we did not review dealt with developing interagency agreements and legal authorities which were more germane to the overall PEPFAR program.

The audit team selected three locations to perform fieldwork and testing: the Regional Procurement Support Office (RPSO) in Frankfurt, Germany; the U.S. Embassy in Lusaka, Zambia; and the U.S. Embassy in Dar es Salaam, Tanzania. The RPSO site was selected because it provides contract management support for U.S. diplomatic and consular posts in Africa. RPSO manages the entire contract administration life cycle from the soliciting bids, evaluating proposals, processing purchase orders, monitoring contract progress, and closing out contracts upon completion. Zambia and Tanzania were selected as case study countries because they were responsible for executing the largest number of PEPFAR construction contracts (over \$1 million) for FYs 2012 and 2013, as shown in Table 1.

¹ While conducting site visits in Tanzania and Zambia, the OIG team noticed that most PEPFAR facilities lacked signage that clearly indicated the U.S. Government's role in the construction of the medical facility. Because better signage supports the Department's foreign policy objective of using "Smart Power" to improve health abroad to reduce the risk of instability, OIG decided to add signage as a third objective from our original compliance followup audit announcement.

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Table 1. PEPFAR FY 2012–2013 Construction Awards

Country	FY 2012 Contract Totals	FY 2013 Contract Totals	Total	Number of Contracts Over \$1,000,000
Zambia	\$1,389,493	\$14,583,450	\$15,972,943	6
Tanzania	11,664,037	1,592,194	13,256,231	3
Ethiopia	5,298,741	3,300,530	8,599,271	3
Uganda	3,901	8,114,167	8,118,068	1
Kenya	7,026,980	-	7,026,980	2
Botswana	4,581,040	-	4,581,040	2
United States	5,540,396	3,130,503	8,670,899	2
Tajikistan	2,399,099	-	2,399,099	1
Mozambique	357,668	-	357,668	0
South Africa	194,342	-	194,342	0
Belgium	63,542	-	63,542	0
Japan	57,048	-	57,048	0
Germany	24,064	-	24,064	0
United Kingdom	8,435	-	8,435	0
Totals	\$38,608,786	\$30,720,844	\$69,329,630	20

Source: OIG generated this table based on information provided by the Department.

Additionally, OIG looked at RPSO actions with respect to 38 contracts that were identified in a prior audit report (AUD/IP-12-03) as having inappropriate contingency costs associated with the contracts. The audit report recommended that Frankfurt RPSO review all existing PEPFAR construction contracts and reclaim any contingency costs inappropriately included in the contracts as practicable per Federal Acquisition Regulation 31.205-7.

The OIG audit team performed fieldwork from February to May 2014 at the Office of the Global AIDS Coordinator (S/GAC) and at the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in Washington, DC; at the RPSO in Frankfurt, Germany; and at constructed/renovated health facilities in the capitals and outlying provinces in Tanzania and Zambia.

To assess actions taken to implement recommendations, OIG interviewed officials from S/GAC, RPSO, and PEPFAR Tanzania and Zambia teams. OIG reviewed contract files at RPSO, Tanzania, and Zambia for nine selected FY 2012-13¹ PEPFAR-funded construction contracts. OIG conducted site visits to 14 different health facilities that were either currently under construction or the facility was constructed in previous years. (Site locations were selected in consultation with the PEPFAR country teams.) During these site visits, OIG met with public health officers, building contractors, and government officials and conducted a visible

¹ Of the nine contracts, three were task orders that were awarded in 2012-2013 from contracts originally awarded in FY 2009.

inspection of the facility to observe the quality of the construction and its present condition. OIG also reviewed all compliance responses and supporting documentation provided by S/GAC to OIG for the recommendations made in the prior two reports.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Review of Internal Controls

OIG did not assess the adequacy of internal controls related to the area reviewed.

Use of Computer-Processed Data

Because accounting documentation could not be readily located, OIG obtained information from computerized records. In combination with other audit work, OIG was able to verify that the information obtained was of sufficient quality to support the recommendations and conclusions of this report, and thus, accomplish its audit objectives.

Facilities Constructed With PEPFAR Funds

Following is a list of facilities constructed with PEPFAR funds that the OIG team visited in Tanzania and Zambia. We visited 11 facilities that opened between 2006 and 2012 (3 in Tanzania and 8 in Zambia) and 3 on-going construction projects (1 in Tanzania and 2 in Zambia).

Location	PEPFAR Health Facility	Facility Opened
Dar es Salaam, Tanzania	National Headquarters and Zonal Blood Transfusion Center, Ilala District	2006
Dar es Salaam, Tanzania	Temeke Hospital TB/HIV Ward, Temeke District	2010
Dar es Salaam, Tanzania	Tandale Care and Treatment Clinic, Kinondoni District	2008
Southern Province, Zambia	Dambwa Compound Voluntary Counseling and Testing Center	2006
Southern Province, Zambia	Livingstone Zambian Police Voluntary Counseling and Testing Center	2006
Southern Province, Zambia	Maramba Compound Voluntary Counseling and Testing Center	2006
Southern Province, Zambia	Livingstone General Hospital Pediatric Ward	2009
Southern Province, Zambia	Livingstone General Hospital TB Ward	2009
Southern Province, Zambia	Mukuni Village Voluntary Counseling and Testing Center	2006
Lusaka Province, Zambia	Zambian Defense School of Health, Phase I	2010
Lusaka Province, Zambia	Zambian Defense Force HIV/AIDS Secretariat	2012
Mtwara, Tanzania	Mkomanido Training Center, Masasi	Construction On-Going
Lusaka Province, Zambia	Defense School of Health Phase II	Construction On-Going
Southern Province, Zambia	Army School of Ordinance	Construction On-Going

Source: OIG generated this table based on information provided by the Department

Closed Recommendations Not Selected for Review

Note: OIG did not review the following recommendations during this compliance followup audit.

Recommendation 1 from Audit Report AUD/IP-11-14. OIG recommends that the Office of the U.S. Global AIDS Coordinator [S/GAC] develop an interagency memorandum of agreement to address the PEPFAR [President's Emergency Plan for AIDS Relief] overseas construction projects that specifies all parties to the agreement; defines the purpose, background, and objective of the agreement; clearly defines the roles and responsibilities of the agencies involved for acquiring and administering construction projects; and provides for dispute resolution.

Discussion: In its formal response to the audit report, S/GAC referred to general dispute resolution provisions (both formal and informal), that if properly applied, should be sufficient to address and resolve any financial or construction-related problems. However, S/GAC also took additional steps and provided evidence that it promulgated a significant amount of detailed guidance on administering construction projects. Specifically, S/GAC created a document matrix that provided specific guidance pertaining to the construction and renovation of HIV/AIDS infrastructure projects, including requisitioning funds; acquiring projects; administering projects; accounting for properties; and transferring properties.

Although OIG continues to believe that a formal interagency Memorandum of Understanding (MOU) specific to PEPFAR construction projects would serve as a valuable management tool in delineating the roles and responsibilities for agencies and in facilitating the resolution of disputes, the intent of the recommendation has been met through the detailed guidance produced by S/GAC for administering construction/renovation contracts.

Status: Closed.

Recommendation 2 from Audit Report AUD/IP-11-14. OIG recommends that the Office of the U.S. Global AIDS Coordinator discuss and seek resolution for the current legal dispute on construction authority with senior level management within the U.S. Department of Health and Human Services [(HHS)].

Discussion: A longstanding legal dispute between the Department of State (Department) and HHS related to contract authority for PEPFAR construction projects. The primary point of contention between the two agencies was whether the authority to award contracts for PEPFAR construction projects transfers with PEPFAR funds from the Department to Centers for Disease Control and Prevention (CDC) or is retained by the Department. HHS believed that CDC, which is an agency within HHS, does not have authority to award construction contracts overseas and that this authority was not transferred to HHS with the PEPFAR funds. The Department disagreed and believed HHS does have the authority to award construction contracts.

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In its formal response to the audit report, S/GAC disagreed with the recommendation stating, "While State lawyers do not agree with the HHS legal view, we believe our alternative of offering an alternative State mechanism is the more effective practical approach." So while the Department does have the legal authority to allocate some or even all of its PEPFAR budget authority to another Federal agency, such as HHS/CDC, the Department decided as a matter of expediency to assume the role of implementing agency and maintain responsibility and control for how the funds are expended. Based upon S/GAC's actions making moot the need to resolve the legal dispute with HHS, OIG considers the recommendation closed.

Status: Closed.

Office of the U.S. Global AIDS Coordinator Response



United States Department of State

Washington, D.C. 20520

MEMORANDUM

July 23, 2014

TO: OIG/AUD – Norman P. Brown

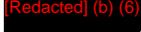
FROM: S/GAC – Ambassador Deborah Birx, MD 

SUBJECT: Response to the Report, *Compliance Follow-up Audit of Department of State Actions to Address Weaknesses in the Ownership, Award, Administration, and Transfer of Overseas Construction Funded by the President's Emergency Plan for AIDS Relief*

Thank you for the opportunity to review and comment on the July 2014 Draft Office of Inspector General (OIG) Report. The Office of the U.S. Global AIDS Coordinator (S/GAC) appreciates the OIG's efforts to recognize the challenges that S/GAC faces when implementing construction overseas. General comments and comments specific to the OIG recommendation are enclosed.

S/GAC agrees with Recommendation 2-- "that S/GAC create standard signage for all PEPFAR-funded facilities to better highlight and display the American people's contribution towards efforts to globally combat HIV/AIDS".

S/GAC appreciates the efforts that OIG expended conducting this review. Thank you again for the opportunity to provide comments on the Draft Report. S/GAC looks forward to continuing our collaborative efforts with the OIG in the future.

If you have any further questions or would like to discuss any of the issues in more detail, please feel free to contact Michael Benton at 202-663- or by email at @state.gov

Attachment: S/GAC Comments on July 2014 Office of Inspector General Draft Report

**S/GAC COMMENTS ON JULY 2014 OFFICE OF INSPECTOR GENERAL DRAFT
REPORT**

**COMPLIANCE FOLLOWUP AUDIT OF DEPARTMENT OF STATE ACTIONS TO
ADDRESS WEAKNESSES IN THE OWNERSHIP, AWARD, ADMINISTRATION, AND
TRANSFER OF OVERSEAS CONSTRUCTION FUNDED BY THE PRESIDENT'S
EMERGENCY PLAN FOR AIDS RELIEF (PEFAR)**

Background and Comments

We appreciate the opportunity to comment on this report and offer the following remarks.

S/GAC Views on Recommendation 2

Recommendation 2: OIG recommends that S/GAC create standard signage for all PEPFAR-funded facilities to better highlight and display the American people's contribution towards efforts to globally combat HIV/AIDS

S/GAC **agrees** with this recommendation, and intends to issue additional guidance on this subject matter.

Specific Comments on July 2014 Draft Report Text

Recommend you replace the following:

On the first line of page 14 in the statement associated with Figure 6, replace "Livingstone" with "Lusaka."

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